STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company	))	
	)	Docket No. 08-0363
Proposed general increase in rates, and revisions to other terms and conditions of service.	)))	

CORRECTED
Rebuttal Testimony of

GERALD P. O'CONNOR, FCCA

Senior Vice President Finance and Strategic Planning
Nicor Gas Company

September 25, 2008

OFFICIAL FILE
DOCKET NO. 08-0363
Nicor GAS Exhibit No. 27.0-27.5 Corr.
Witness ____
Date 11/17/08 Reporter TO

Nicor Gas Ex. 27.0

TABLE OF CONTENTS

Page

I. INTRODUCTION

Q. Please state your name and business address.

A. Gerald P. O'Connor, 1844 Ferry Road, Naperville, Illinois 60563.

Q. By whom and in what position are you employed?

A. I am the Senior Vice President of Finance and Strategic Planning for Nicor Inc. and Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company").

Q. Are you the same Gerald P. O'Connor that provided direct testimony in this matter?

A. Yes.

II. PURPOSE OF TESTIMONY AND SUMMARY OF CONCLUSIONS

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purposes of my rebuttal testimony are to respond to the direct testimony of:

(1) Illinois Commerce Commission ("ICC") Staff witness David Brightwell regarding his recommendations for Rider CUA and Rider EEP. (Brightwell Dir., Staff Ex. 13.0);

(2) ICC Staff witnesses Peter Lazare and Dianna Hathhorn. (Lazare Dir., Staff Ex. 10.0; Hathhorn Dir., Staff Ex. 2.0). I address Mr. Lazare's recommendations regarding the use of riders and Ms. Hathhorn's recommendations for Rider UEA and Rider QIP; and

(3) Attorney General ("AG") and Citizens Utility Board ("CUB") (collectively "AG/CUB") witness Scott Rubin regarding his recommendations for the use of riders and specifically his recommendations for Rider UEA, Rider CUA, Rider VBA, Rider EEP and Rider QIP. (Rubin Dir., AG/CUB Ex. 2.0).

Q. What is the conclusion of your rebuttal testimony?

A. I provide support for and conclude that each of the following riders proposed by the Company is necessary to address a specific business condition facing Nicor Gas both now and in the future:

- **Uncollectible Expense:** Rider 26, Uncollectible Expense Adjustment ("Rider UEA");
- **Natural Gas Used by Nicor Gas:** Rider 27, Company Use Adjustment ("Rider CUA");
- **Volume Balancing Adjustment:** Rider 28, Volume Balancing Adjustment ("Rider VBA");
- **Energy Efficiency Plan Expenses:** Rider 29, Energy Efficiency Plan ("Rider EEP"); and
- **Infrastructure Replacement Program:** Rider 30, Qualifying Infrastructure Plant ("Rider QIP").

III. ITEMIZED ATTACHMENTS

Q. Are you sponsoring any schedules?

A. Yes. In addition to my rebuttal testimony, which has been labeled as Nicor Gas Exhibit 27.0, I am sponsoring Nicor Gas Exhibits 27.1 through 27.5. I will discuss these exhibits later in my testimony.

IV. OTHER NICOR GAS WITNESSES

Q. Do other Nicor Gas witnesses also respond to the recommendations of Staff and Intervenors regarding the Company's proposed riders?

A. Yes. Nicor Gas witness James M. Gorenz will discuss accounting issues involving Rider CUA and Rider QIP. (Gorenz Reb., Nicor Gas Ex. 26.0). Nicor Gas witness Gary R.

Bartlett will discuss measurement issues involving Rider CUA. (Bartlett Reb., Nicor Gas Ex. 19.0). Nicor Gas witness Robert R. Mudra will discuss modifications to tariff language involving each rider. (Mudra Reb., Nicor Gas Ex. 29.0). Nicor Gas witness Kristine J. Nichols will discuss funding levels, and management and structure issues involving Rider EEP. (Nichols Reb., Nicor Gas Ex. 28.0). Nicor Gas witness Anthony R. McCain will discuss Rider QIP benefits. (McCain Reb., Nicor Gas Ex. 20.0). Nicor Gas witness Jeff D. Makholm, Ph.D. will discuss the relationship between riders and the Company's rate of return. (Makholm Reb., Nicor Gas Ex. 25.0). Nicor Gas witness Steven M. Fetter will address Staff witness Lazare's views regarding the use of riders. (Fetter Reb., Nicor Gas Ex. 17.0). Nicor Gas witness Kevin W. Kirby discusses the Company's collection efforts. (Kirby Reb., Nicor Gas Ex. 27.0).

V. OVERVIEW OF PROPOSED RIDERS

Q. Please summarize why Nicor Gas is requesting approval of five new riders.

A. As discussed in my direct testimony, Nicor Gas is proposing each new rider for several reasons. For example, Nicor Gas proposes Riders UEA and CUA to respond to significant year-to-year volatility in natural gas prices, which has had a substantial negative impact on the Company's opportunity to recover its gas-price related costs for operations and the level of its uncollectible expense. In addition, Nicor Gas proposes to introduce, through Riders VBA and EEP, a rate design that breaks the direct link between delivery volumes and the Company's recovery of fixed costs, which will allow the Company to propose and support a funding mechanism for energy efficiency programs. Finally, Nicor Gas proposes Rider QIP to establish an appropriate cost recovery mechanism for certain additional capital investments in a timely fashion to facilitate Nicor Gas' ongoing replacement of its old cast iron main and copper services.

Q. Why should the Commission approve Nicor Gas' proposed new riders?

A. The Commission recently confirmed that it has "the authority to adopt the rider mechanism in proper situations and under circumstances that are lawful and reasonable." *Commonwealth Edison Co.*, Docket No. 07-0566, Order at 137 (Sep. 10, 2008). Each of the riders Nicor Gas proposes in this proceeding should be approved as proper, lawful and reasonable.

Cost recovery riders are part of the traditional ratemaking approach that has been used in Illinois, and other jurisdictions, for decades, because such riders better track costs with prices and provide for the timely recovery of those costs. Volume balancing adjustment riders serve an equally important function by providing a mechanism to allow utilities, in the face of declining deliveries, to continue to collect sufficient level of revenues to recover their fixed costs reflected in base rates and to directly align with customers in promoting lower usage through conservation. Together with a volume balancing adjustment rider, an energy efficiency rider will foster the creation and implementation of energy efficiency programs designed to reduce therm demand. Finally, a capital investment cost recovery rider permits the Company to recover the return of and on its investment, which, in turn, accelerates resulting benefits to ratepayers. Because each of Nicor Gas' proposed new riders is just and reasonable, and consistent with the Commission's guidance provided on such riders, the Commission should approve the riders.

VI. EXPENSE RECOVERY RIDERS (RIDERS UEA AND CUA)

Q. What expense related riders is Nicor Gas proposing in the proceeding?

A. Nicor Gas is proposing Rider 26, Uncollectible Expense Adjustment ("Rider UEA"), which would provide for timely recovery of the volatile and significant cost associated with bad debt. Nicor Gas is also proposing Rider 27, Company Use Adjustment ("Rider CUA"), which would provide for timely recovery of the volatile and significant effects of changes in the price of natural gas used by the Company in the normal course of its business operations.

Q. Which Staff and intervening witnesses testimony will you be addressing with respect to the expense riders?

A. I will be addressing the relevant portions of direct testimony presented by Staff witness Lazare and AG/CUB witness Rubin. (Lazare Reb., Staff Ex. 7.0; Rubin Reb., AG/CUB Ex. 2.0).

Q. Do you agree with Staff witness Lazare's allegation that adoption of gas price related riders presents problems unique to ratepayers? (Lazare Dir., Staff Ex. 7.0, 4:92-5:104).

A. No. Mr. Lazare acknowledges both the Company and ratepayers are affected by natural gas prices. (*Id.*, 5:93-95). However, he believes it is easier for the Company to absorb a loss than to impose the applicable and equitable cost of gas delivery services on ratepayers. (*Id.*, 5:107). His proposed alternative is for the Company to continue to file rate cases. (*Id.*, 6:128-29). First, the Company's proposed expense riders appropriately seek recovery for costs incurred by the Company to provide service to ratepayers.

Second, there is disparate impact on the Company if it is solely responsible for costs that are volatile and outside its control. Third, Nicor Gas has proposed recovery mechanisms that provide charge and credit symmetry between Nicor Gas and its ratepayers.

The riders are specifically designed to charge or credit the impact of gas prices, irrespective of whether the resulting price is above, or below the level established in this case. With respect to my second point, were riders UEA and CUA in effect in 2007, a typical residential customer's bill would have increased approximately 1% or $0.88 per month. In comparison, the impact on Nicor Gas' Net Income would have been over $1 million per month or approximately 9.7%. Nicor Gas Exhibit 27.1, attached hereto, illustrates the 2007 results for a typical residential space heat ratepayer as compared to the impact on Nicor Gas, if the CUA and UEA riders were in effect. Moreover, Staff witness Brightwell agrees that the impact of Rider CUA on customers is not likely to be significant. (Brightwell Dir., Staff Ex. 13.0, 26:540-41).

Q. Mr. Lazare implies the Company and ratepayers are not on equal footing when dealing with increases in gas costs because a utility may file a rate case to recover its energy costs. (Lazare Dir., Staff Ex. 7.0, 6:128-29). What is wrong with Mr. Lazare's assumption?

A. As Mr. Lazare is doubtlessly aware, if Nicor Gas were to file rate cases on a more frequent basis related to increases in gas costs, it is limited to recovering increases on a prospective basis. That is, absent riders like Rider UEA or CUA, Nicor Gas can never recover its increase in costs related to volatile gas prices between rate cases.
Mr. Lazare's position encourages utilities to file unnecessary rate cases that can otherwise be avoided through wise regulatory policy.

Q. Does Nicor Gas agree with AG/CUB witness Rubin's testimony wherein he states rate adjustment riders should be used, if at all, only for significant expenses that are volatile and largely outside the utility's control? (Rubin Dir., AG /CUB Ex. 2.0, 7:158-59).

A. No. In Illinois, riders need not be based solely on costs that are volatile or influenced by external factors. As evidence of this, the Commission recently approved Commonwealth Edison's Rider System Modernization Projects ("SMP"). *Commonwealth Edison Co.*, Docket No. 07-0566, Order at 138 (Sep. 10, 2008). There the Commission did not require the utility to prove the costs of its proposed infrastructure improvement rider be based on volatile costs or external factors. However, the Company would agree that volatility or external factors may form an appropriate basis for rider treatment. Certainly, the price of natural gas is volatile and set outside Nicor Gas' control. Again, Staff has acknowledged that natural gas prices are very volatile. (Brightwell Dir., Staff Ex. 13.0, 22:437). Moreover, gas costs impact on uncollectible expense and company use expense result in significant expenses to Nicor Gas. As suggested by AG/CUB witness Rubin (Rubin Dir., AG/CUB Ex. 2.0, 7:136-54), a utilities rates should be set when there is an opportunity to examine both costs and revenues. Consistent with Mr. Rubin's suggested synchronization principle, Nicor Gas is requesting the implementation of the Rider UEA and Rider CUA within the context of this rate proceeding where both costs and revenues can be examined. Here, the Commission has the opportunity to review all aspects of the Company's cost of service, sources of revenue and operations and can establish the expense base levels that would be used in determining any future charges under the proposed riders.

Q. Mr. Rubin alleges the Company did not make a case to support rider treatment, from a financial perspective. (Rubin Dir., AG/CUB Ex. 2.0, 7:170). Does the Company agree?

A. No. In formulating his opinion, Mr. Rubin relies on two data request responses. Mr. Rubin's reliance on these responses is far too narrow to conclude there is not financial support for rider treatment. Nicor Gas is unable to predict the future cost of natural gas, and consequently the impact on company use and uncollectible expense, and on its proposed Riders CUA and UEA. However, Nicor Gas has determined that, based on prior experience, the impact of a $1 price movement of natural gas on company use expense, and uncollectible expense results in a revenue requirement change of approximately $8,600,000. (O'Connor Dir., Nicor Gas Ex. 12.0, 8:134-39, 10:157-64).

A. RIDER 26: UNCOLLECTIBLE EXPENSE ADJUSTMENT

Q. Please briefly describe Rider UEA.

A. Proposed Rider UEA provides for timely recovery of the volatile and significant cost associated with bad debt. It would either refund to customers or charge customers the difference between the amount of uncollectible expense approved by the Commission in this proceeding and the actual amount incurred by the Company on an annual basis. The proposed Rider UEA does provide that no adjustments would be made if the difference between the rate case amount and actual expense falls within a five percent "dead-band" around the rate case amount.

Q. Which Staff or intervenor witnesses have addressed Rider UEA?

A. Staff witness Lazare and AG/CUB witness Rubin address Rider UEA. Staff witness Mr. Lazare's incorrectly concludes that uncollectible expense is not volatile. Further, he erroneously contends that the Company has not done enough to address the rise in uncollectible expense. AG/CUB witness Rubin, without basis in fact, opines the Company has a significant ability to control uncollectible expense and charges that the Company has overstated the test year uncollectible expense. Lastly, both Mr. Lazare and Mr. Rubin mistakenly assert that under Rider UEA the Company would not have incentive to effectively manage uncollectible expense.

Q. Does Nicor Gas agree with ICC Staff witness Lazare's contention that Rider UEA costs are not volatile? (Lazare Dir., Staff Ex. 7.0, 9:193).

A. No. Nicor Gas believes that the data as presented by Mr. Lazare is misleading. First, Mr. Lazare does not present any statistical analysis of volatility. He simply plots two series of data and makes the wholly unsupported conclusion that "uncollectibles expense fluctuates much less than…operating expense." (Lazare Dir., Staff Ex. 7.0, 10:200-01). Apparently, Mr. Lazare has used simple inspection of his graph to come to this conclusion. As shown in Nicor Gas Exhibit 27.2, Nicor Gas' uncollectible expense are 3.39 times more volatile than non-gas related O&M costs. Clearly, uncollectible expense is more volatile than Net O&M costs. Additionally, Mr. Lazare erroneously compares uncollectible expense to an O&M expenses sub-total that includes other gas price related expenses, such as company use. In his comparison, he failed to note that the annual rate of increase in uncollectible expense of 17.0 % is much higher than the annual rate of increase of non-gas related O&M expense of 4.5 %. Finally, as noted in my direct testimony, the rate of change to Nicor Gas' uncollectible expense is closely correlated to the change in the price of natural gas. Indeed, Staff witness Brightwell agrees that natural gas prices are "very volatile". (Brightwell Dir., Staff Ex. 13.0, 22:437).

Q. Does Nicor Gas agree with Staff witness Lazare's contention that the Company has not increased its efforts to address the rise of uncollectible expense? (Lazare Dir., Staff Ex. 7.0, 13:246-47).

A. No. Nicor Gas has introduced several initiatives to improve the level of collections, assist ratepayers who have difficulty meeting their payment obligations, and to disconnect ratepayers who are not making payments. The Company's collection efforts are more fully discussed in the direct and rebuttal testimony of Nicor Gas witness Kevin Kirby. (Kirby Dir., Nicor Gas Ex. 6.0; Kirby Reb., Nicor Gas Ex. 21.0). Indeed, Mr. Lazare himself concedes Nicor Gas has had success in addressing uncollectible expense. (Lazare Dir., Staff Ex. 7.0, 13:260).

Q. AG/CUB witness Rubin opines that the level of Uncollectible Expense is within the utility's control to a significant extent. (Rubin Dir., AG/CUB Ex. 2.0, 10:222). Does Nicor Gas agree?

A. No. Nicor Gas has established an 81% correlation between the rate of change to gas prices and the rate of change to uncollectible expense. (Nicor Gas Ex. 27.3). This high correlation indicates that uncollectible expense movements tend to closely parallel movement of natural gas prices, over which Nicor Gas has no control. This should come as no surprise, as gas costs tend to be the overwhelming majority of a customer's bill.

Q. Rather than approve a rider to address volatile uncollectible expense, what does Mr. Rubin suggest?

A. Mr. Rubin opines that Nicor Gas should do more to assist customers in paying their bills. However, he neglects to note that Nicor Gas has introduced several successful collection programs over the past several years, as outlined in Mr. Kirby's direct and rebuttal testimonies. (Kirby Dir., Nicor Gas Ex. 6.0; Kirby Reb., Nicor Gas Ex. 21.0). Staff witness Lazare agrees the Company's collection programs are successful. (Lazare Dir., Staff Ex. 7.0, 13:266-67). Mr. Rubin fails also to note that Nicor Gas has been a low cost provider of gas distribution service, which includes customer care expense and uncollectible expense, both within Illinois and nationally, as more fully outlined in the direct testimony of Nicor Gas witness Mr. D'Alessandro. (D'Alessandro Dir., Nicor Gas Ex. 3.0, 12:243-54).

Q. Does the AG/CUB witnesses provide contradictory recommendations?

A. Yes. Mr. Rubin suggests Nicor Gas do more to assist customers in paying their bills, but his colleague AG/CUB witness Effron proposes to reduce the test year forecast for Customer Care expense by approximately $3 million. (Effron Dir., AG/CUB Ex. 1.0, 27:10-11). Mr. Effron's proposal to reduce Nicor Gas' ability to assist customers in need is directly contradictory to Mr. Rubin's suggested remedy.

Q. AG/CUB witness Rubin cites as one of his reasons not to approve Rider UEA is because Nicor Gas may have overstated the level of increase in uncollectible expense. (Rubin Dir., AG/CUB Ex. 2.0, 11:243-44). Does Nicor Gas agree?

A. No. Nicor Gas has a conservative uncollectibile expense budgeting record. In seven of the past eight years uncollectible expense actually exceeded the budgeted amount. (Nicor Gas Ex. 27.4). This indicates the difficulty Nicor Gas has in forecasting an expense so closely correlated with volatile natural gas prices. Additionally, the forecasted uncollectible expense is being thoroughly reviewed for reasonableness in the context of this rate case.

Q. Does Nicor Gas agree with Staff witness Lazare's and AG/CUB witness Rubin's contention that somehow the Company would be less incented to effectively manage the uncollectible expense process were Rider UEA approved in this proceeding? (Lazare Dir., Staff Ex. 7.0, 15:306-08; Rubin Dir., AG/CUB Ex. 2.0, 11:249-50).

A. No. These suggestions indicate a misunderstanding of the business operations of the Company. Ineffective collections efforts would result in a significant slowdown of cash collections, resulting in a cash shortfall for Nicor Gas. Nicor Gas is incented to expedite cash collections, and reduce the number of days between delivery of gas service and receipt of cash. Nicor Gas has been one of the lowest cost providers in the state during the past ten years, despite a similar alleged "lack of incentive" in connection with Rider 6, Gas Supply Costs. Finally, even if one were to believe incentives are required, the dead-band within which Nicor Gas is exposed provides a significant incentive to the Company to either avoid a higher level of uncollectible expense or attain the benefit of lower uncollectible expense.

To illustrate both the significance and incentive for the Company to manage it uncollectible expense, consider the following: The 5% dead-band amounts to approximately $3,400,000 at current rates. As a point of reference, an expense item of

$3,400,000 would rank in the top twenty accounts of Nicor Gas Total Operating & Maintenance Expenses in its 2009 budget. As such, the proposed 5% dead band provides a significant level of risk to be managed by the Company if uncollectible expense increases while also providing customers with the same degree of protection by way of credits if uncollectible expense falls. There is no basis to contend management will not act prudently should Rider UEA be approved.

B. RIDER 27: COMPANY USE GAS COST ADJUSTMENT

Q. Please briefly describe Rider CUA.

A. Rider CUA provides for timely recovery of the volatile and significant effects of gas price changes in the cost of natural gas used by the Company in the normal course of its business operations. Rider CUA does not seek recovery of the volume difference of company use gas, merely the impact of natural gas price changes on Company Use Expense.

Q. Does Nicor Gas agree with Staff witness Brightwell's recommendation opposing Rider CUA? (Brightwell Dir., Staff Ex. 13.0, 20:406)?

A. No. He fails to conclude that Rider CUA is appropriate despite acknowledging that gas prices are "very volatile." (*Id.*, 22:437). He concurs that the impact of a dollar change to the price of company use gas is significant when measured against Nicor Gas net income. (*Id.*, 23:461-63). His analysis then veers off point when he opines about the level of company use gas and the ability of the Company to control its use. Nicor Gas does have some small means to manage the volumes it consumes to provide distribution service. However, its ability to manage volumes is by no means absolute and Nicor Gas will continue to reduce its gas usage where possible within the bounds of prudent behavior. The point of Rider CUA is to address the volatility of gas prices, not usage.

Q. Does Mr. Brightwell express some concern whether the Company will remain incented to manage its company use gas if Rider CUA were approved?

A. Yes. Mr. Brightwell considered four alternative approaches which he believes will increase Nicor Gas' incentive to manage its company use gas expenses under proposed Rider CUA. (Brightwell Dir., Staff Ex. 13.0, 25:518-26:527). Of those four alternatives Mr. Brightwell recommends amending proposed Rider CUA to change the quantity of use gas from the lesser of the actual amount used by Nicor Gas in the previous year and the test year amount, to using the test year amount only. (*Id.*, 26:533-37). With this change, Mr. Brightwell considers Nicor Gas will be more incented to seek company use therm reductions. Nicor Gas is agreeable to this modification of Rider CUA and has provided a modified tariff in the rebuttal testimony of Mr. Mudra to reflect this change. (Mudra Reb., Nicor Gas Ex. 29.0).

Q. Lastly, Mr. Brightwell notes the concerns regarding measurement and accounting issues related to gas storage gas losses expressed by Staff witnesses Anderson and Hathhorn. (Brightwell Dir., Staff Ex. 13.0, 20:410-21:413). How does Nicor Gas propose to address these concerns?

A. The concerns regarding of measurement and accounting for storage gas losses are addressed in the rebuttal testimonies of Nicor Gas witnesses Mr. Bartlett and Mr. Gorenz. (Bartlett Reb., Nicor Gas Ex. 19.0; Gorenz Reb., Nicor Gas Ex. 26.0). With respect to measurement, Mr. Bartlett confirms there is ample empirical evidence and documentation to support the Company's proposed storage gas losses. (Bartlett Reb., Nicor Ex. 19.0).

With respect to accounting, Mr. Gorenz concludes that without the completion of a study analyzing the different types of gas storage losses it is appropriate to use the Company's accounting methodology, a methodology that has been in place since the 1960's. The explanations of Mr. Bartlett and Mr. Gorenz provide additional support for the approval of Rider CUA. However, Nicor Gas is agreeable to conduct a study to determine the allocation of the gas storage losses and to make the recommended accounting adjustments prospectively.

Q. AG/CUB witness Rubin contends that company use expense is not volatile. (Rubin Dir., AG/CUB Ex. 2.0, 14:318). Does Nicor Gas agree?

A. No. There are essentially two components that comprise company use expense, price and volume. The price of natural gas is volatile. I demonstrated its volatility in my direct testimony. Company use expense is the result of volumes consumed multiplied by prevailing gas prices. As shown in my direct testimony and confirmed by Staff witness Brightwell, gas prices are volatile, while company use volumes are relatively stable year-to-year. (O'Connor Dir., Nicor Gas Ex. 12.0, 9:145-59; Brightwell Dir., Staff Ex. 13.0, 22:437). Indeed, as displayed in Exhibit 27.5, company use expense is nearly five times more volatile than non-gas related O&M costs, and has increased at an annual rate of 18.6% compared to Other O&M Expense annual increase of 4.5%. Mr. Rubin does not appear to contest this point. Rather, it appears Mr. Rubin bases his objection on the level of use and not on the price of gas. (Rubin Dir., AG/CUB Ex. 2.0, 14:331-32). He misses the point. Rider CUA seeks only to address the impact of the volatility of natural gas prices and not the level of consumption.

Q. How has the volatility of company use expense impacted the Company?

A. Mr. Rubin fails to consider that the company use expense approved in the 2004 Rate Case was $19,739,000, resulting in an under-recovery of this cost of $17,833,000 in 2006, and a forecasted under-recovery of $7,069,000 for the test year 2009. Second, he describes the result from 2006 as being "higher than normal." (Rubin Dir., AG/CUB Ex. 2.0, 14:325-26). It is unclear how Mr. Rubin concludes that other years were "normal", given that natural gas prices are very volatile.

Q. AG/CUB witness Rubin suggests Nicor Gas has available an alternative accounting method under the Uniform System of Accounts for gas losses associated with Account 823, Gas Storage Losses. (Rubin Dir., AG/CUB Ex. 2.0, 15:342). What is Nicor Gas' concern with his assessment?

A. Nicor Gas believes that proposed Rider CUA represents a more equitable method for ratepayers than Mr. Rubin's proposed alternative because the Company's Rider CUA provides for refunds to ratepayers when the gas prices fall. First, Nicor Gas is not seeking rider protection for volumetric gains or losses arising from cumulative inaccuracies of gas measurement as is anticipated by the Uniform System of Accounts for Account 823. Second, Rider CUA is tailored to address the problems associated with the volatility of natural gas prices, Account 823 is not. Finally, Mr. Rubin's alternative accounting treatment, the use of Account 823, does not allow for the recovery of higher costs, it merely postpones recognition of costs over an amortization period.

VII. VOLUME BALANCING ADJUSTMENT AND ENERGY EFFICIENCY RIDERS (RIDERS VBA AND EEP)

Q. Please describe Rider VBA and Rider EEP?

A. Nicor Gas is proposing Rider VBA, a revenue stabilization or "decoupling" mechanism, consistent with similar riders previously approved by the Commission in Peoples Gas' and North Gas' recent rate proceedings. *Peoples Gas*, Docket Nos. 07-0241/07-0242 (consol.), Order at 153 (Feb. 5, 2008) ("Peoples Gas Order"). Nicor Gas is proposing Rider EEP, also consistent with similar riders previously approved by the Commission in the Peoples Gas Order, as a funding mechanism for new energy efficiency programs to promote increased conservation by its customers. Together, these two new riders promote increased energy efficiency in a manner that is a "win-win" situation for both Nicor Gas and its customers.

A. RIDER 28: VOLUME BALANCING ADJUSTMENT

Q. Please provide a brief overview of Nicor Gas' proposed Rider VBA.

A. Rider VBA, provides the Company the opportunity to recover its fixed costs as approved in this proceeding, despite changes in weather or conservation from year to year. The rider is designed symmetrically in that over collections of revenues are refunded to customers and under collections are charged to customers. Rider VBA is essentially identical to the riders approved by the Commission in the Peoples Gas Order.

Q. Which other Nicor Gas witnesses address Rider VBA?

A. Nicor Gas witness Mudra discusses and agrees to the technical changes to Rider VBA proposed by Staff witness Jones but rejects Ms. Jones' "full decoupling" alternative. (Mudra Reb., Nicor Gas Ex. 29.0). He also addresses AG/CUB witness Rubin's customer additions argument. (*Id.*) Nicor Gas witness Makholm discusses the lack of impact Rider VBA has on the Company's cost of capital. (Makholm Reb., Nicor Gas Ex. 25.0).

Q. Has Staff taken a position relative to the use of a volume balancing rider?

A. No. Staff witness Jones indicates that Staff takes no position on the use of a volume balancing rider. (Jones Dir., Staff Ex. 3.0, 21:375-79). She neither opposes or recommends Rider VBA, however if the Commission were to approve a volume balancing adjustment rider, she suggests several technical changes to Nicor Gas' proposed Rider VBA which are addressed in more detail by Company witness Mudra. (*Id.*, 23:403-27:545; Mudra Reb., Nicor Gas Ex. 29.0).

Q. Staff witness Jones also discusses an alternative that fundamentally changes Rider VBA, a modification which she describes as "full decoupling." (Jones Dir., Staff Ex. 3.0, 27:546-30:624). Does Ms. Jones actually recommend what she describes as full decoupling changes to Rider VBA? (*Id.*, 30:629-30).

A. No. Though she identifies changes to the rider, Ms. Jones does not make any recommendation as to whether the Company's proposed Rider VBA should be approved or whether the changes she constructed on lines 585-624 of her direct testimony should be approved. (*Id.*, 29:584-30:624).

Q. Does the Company accept Ms. Jones' decoupling alternative?

A. No. Ms. Jones decoupling alternative would eliminate the recovery of any revenue from new customers. The Company opposes Ms. Jones' alternative language because it fails to consider that new customers add costs to Nicor Gas that are not reflected in current costs considered in this proceeding. If new customers are added without additional revenues to offset the new costs, to whatever extent, Nicor Gas would need to seek rate relief much sooner. Historically, utilities have always received the benefits of additional revenues from new customers to offset incremental costs and that should not change with the implementation of Rider VBA.

Q. Has AG/CUB witness Rubin taken a position on Rider VBA?

A. Yes. AG/CUB witness Rubin is the only witness in this proceeding to oppose the use of a volume balancing rider, despite recent Commission approval of a volume balancing rider in the Peoples Gas Order that is virtually the same as the Company's proposed Rider VBA. (Rubin Dir., AG/CUB Ex. 2.0, 18:415).

Q. What objections did Mr. Rubin raise with respect to implementing Rider VBA?

A. Mr. Rubin raised three objections to Rider VBA. (Rubin Dir., AG/CUB Ex. 2.0, 18:417-19:422). First, he states that under Nicor Gas' proposal every new customer added after the rate case would be deemed to be just like an average customer. (*Id.*, 18:417-19). Second, he states that Nicor Gas should not be entitled to a certain amount of revenue per customer to recover its fixed costs. (*Id.*, 18:419-19:421). Finally, he believes that Nicor Gas failed to demonstrate a financial need for Rider VBA. (*Id.*, 19:421-22).

Q. How does Nicor Gas respond to Mr. Rubin's new customer additions argument?

A. Mr. Rubin's new customer argument is a red herring in that it has nothing to do with implementing Rider VBA. Nicor Gas witness Mudra also addresses Mr. Rubin's new customer additions argument. (Mudra Reb., Nicor Gas Ex. 29.0).

Natural gas utilities have always used average costs and average rates in their rate designs. To take Mr. Rubin's position to its logical conclusion would require a utility to create a rate for each and every customer based on when they were added to the system. I am unaware of any utility with this rate design.

Q. Is Mr. Rubin's objection that Nicor Gas should not be entitled to the opportunity to recover a certain amount of revenue per customer for its fixed costs reasonable? (Rubin Dir., AG/CUB Ex. 2.0, 21:468-70).

A. No. As indicated in the direct testimony of Nicor Gas witness Mr. Hawley it is important for Nicor Gas to recover its prudently incurred costs. (Hawley Dir., Nicor Gas Ex. 1.0, 6:108-26). Further, Mr. Hawley indicates that customer consumption patterns have affected Nicor Gas ability to recover its prudently incurred costs. (*Id.*, 11:226-13:243).

Q. Does Nicor Gas agree with Mr. Rubin's comments regarding what he perceives as "perverse incentives" created by volume balancing riders? (Rubin Dir., AG/CUB Ex. 2.0, 23:520-22).

A. No. Mr. Rubin manufactures an issue by implying that if Rider VBA were approved the Company would no longer be required or incented to serve its customers. Pursuant to the Public Utilities Act ("PUA" or the "Act"), Nicor Gas has an obligation to serve. 220 ILCS 5/8-101. That requirement will not change if Rider VBA is approved. Moreover, Nicor Gas is unaware of any other public utility commission that has approved a volume balancing adjustment rider and later determined a utility refused or neglected to provide the required service.

Rider VBA and the Act provide safeguards to the concerns, albeit manufactured ones, that Mr. Rubin raises. Rider VBA provides for annual reconciliations before the Commission in a contested proceeding. Further, the Commission is armed with its right pursuant to the PUA to terminate Rider VBA if it finds the rider produces rates that are unjust and unreasonable. 220 ILCS 5/9-101.

Q. Lastly, Mr. Rubin claims that Nicor Gas failed to demonstrate a financial need for Rider VBA. (Rubin Dir., AG/CUB Ex. 2.0, 25:565). Does Nicor Gas agree with this claim?

A. No. Under its current rate design, Nicor Gas has failed to recover its prudently incurred costs, and has not earned, nor is it forecast to earn, the rate of return allowed in the Company's last rate case, Docket No. 04-0779 ("2004 Rate Case"). The Company's inability to recover its prudently incurred costs are discussed in great detail by Nicor Gas witness Hawley. (Hawley Dir., Nicor Gas Ex. 1.0, 6:108-26).

Q. Has Mr. Rubin presented any reasonable argument that Nicor Gas should not implement its proposed Rider VBA?

A. No. Nicor Gas believes its proposed Rider VBA is just and reasonable and virtually the same as approved by the Commission in the Peoples Gas Order and should be approved by the Commission as originally proposed together with those technical changes discussed in Mr. Mudra's testimony.

B. RIDER 29: ENERGY EFFICIENCY PLAN

Q. Please briefly describe Nicor Gas' proposal for Rider EEP.

A. Nicor Gas' proposed Rider EEP would be similar to that approved by the Commission in the Peoples Gas Order. There would be an Advisory Board that would have responsibility for designing and operating the Energy Efficiency Plan. Nicor Gas would be a fiscal agent for receiving up to $13 million per year from customers for Advisory Board approved energy efficiency programs and disbursing funds as directed by the Advisory Board.

Q. Are there other Nicor Gas witnesses that also discuss issues concerning Rider EEP?

A. Yes. Nicor Gas witness Kristine Nichols discusses issues concerning the management structure and funding level of Rider EEP and Nicor Gaw witness Robert Mudra addresses proposed changes to the terms and conditions of Rider EEP. (Nichols Reb., Nicor Gas Ex. 28.0; Mudra Reb., Nicor Gas Ex. 29.0).

Q. Which witnesses intervening in this proceeding had concerns with Rider EEP that you will be addressing?

A. I will be addressing the relevant parts of direct testimonies presented by Staff witness Brightwell (Brightwell Dir., Staff Ex. 13.0) and AG/CUB witness Rubin (Rubin Dir., AG/CUB Ex. 2.0).

Q. Does Staff oppose the implementation of an energy efficiency plan, even though the Commission approved a very similar plan before?

A. Yes. Staff witness Brightwell concludes there is no need for energy efficiency programs despite the Commission concluding otherwise in several recent dockets. (Brightwell Dir., Staff Ex. 13.0, 5:101-07, 6:120-23). No other party in this proceeding has reached the conclusion that there is no need to promote energy efficiency. The Commission recently approved Ameren and Commonwealth Edison's electric energy efficiency and demand response programs. *Ameren CILCO, Ameren CIPS and Ameren IP*, Docket No. 07-0539, Order (Feb. 6, 2008); *Commonwealth Edison's Co.*, Docket No. 07-0540, Order (Feb. 6, 2008). Additionally, just seven months ago, on February 5, 2008, the Commission approved in the Peoples Gas Order an energy efficiency plan. The Company's Energy Efficiency Plan is nearly identical to the plan approved by the Commission in the Peoples Gas Order.

Q. Does Staff witness Brightwell address the Conservation Stabilization Adjustment ("CSA") component of Rider EEP?

A. Yes.

Q. Please describe the CSA component of Nicor Gas' proposed Rider EEP.

A. The CSA would allow Nicor Gas the opportunity to recover lost revenues resulting from the energy efficiency programs implemented under proposed Rider EEP. The Advisory Board would approve the programs and provide Nicor Gas with the number of therms that would be conserved by residential and non-residential customers using the various programs. Nicor Gas would multiply those therm levels by the last distribution block charge for the respective rate class to determine the amount of lost revenue. The lost revenue would be included as a cost in the annual Rider EEP charge and be recovered from customers. It should be noted that the proposed CSA component of Rider EEP would not be effective if the Commission were to approve Rider VBA.

Q. What issue does Mr. Brightwell raise about the CSA component of Rider EEP?

A. Mr. Brightwell opposes Rider EEP because he alleges the CSA may not be able to capture therm reductions accurately. (Brightwell Dir., Staff Ex. 13.0, 13:241-42). First, he believes generally that it is difficult to measure savings from certain programs. (*Id.*, 13:243). As an example, he complains the Company has not offered a reliable method to accurately assess therm loss due to "market transformation". (*Id.*, 13:243-45). As discussed in detail by Ms. Nichols, the Company proposes that the Advisory Board, which includes participation by those intimately familiar with programs and measurement and evaluation, develop appropriate savings measures. (Nichols Dir., Nicor Gas Ex. 13.0, 7:132-56). The Company purposefully has not attempted to ascribe or measure any particular savings or deemed savings amount in its filing, instead reserving that authority for the Advisory Board.

The measurement and evaluation proposal of Nicor Gas is virtually identical to that approved by the Commission in the Peoples Gas Order. Mr. Brightwell offers no evidence or rationale why the evaluation of market transformation programs cannot be properly measured. Moreover, given the similarities between the Company's Rider EEP and the plan approved in the Peoples Gas Order, it is striking that Mr. Brightwell failed to offer any rationale why the Commission erred in the Peoples Gas Order or why the Commission should decide differently in this proceeding.

Second, Mr. Brightwell believes there is a deficiency with the CSA component of Rider EEP in that it would reflect recovery for therm reductions from those he deems as free riders. (Brightwell Dir., Staff Ex. 13.0, 14:257-58). As stated earlier, the role of the Advisory Board is to approve programs, including an assessment of the conservation benefits and opportunities. There is nothing within the Company's Energy Efficiency Plan that would prevent the proposed Advisory Board from considering the impact of free riders and adjust goals accordingly. Mr. Brightwell loses sight of Rider EEP's goal of decreasing demand and the societal benefits that accompany decreased demand. Assuming the Commission supports energy efficiency, as it has in three recent docketed proceedings, it matters most that Rider EEP contributes to the goal of demand reduction, and not whether some percentage of demand reduction was achieved in part by free riders. Furthermore, if Rider VBA is approved by the Commission in this docket, then the CSA as proposed would not become effective and therefore eliminate Mr. Brightwell's concerns. A point Mr. Brightwell himself admits. (Brightwell Dir., Staff Ex. 13.0, 18:364-65).

Q. What are Mr. Rubin's recommendations regarding Rider EEP?

A. First, he recommends that an energy efficiency rider be used on an interim basis and that the costs of the program should be included in a future rate case. (Rubin Dir., AG/CUB Ex. 2.0, 29:646-48). Additionally, he recommends the CSA component from the Rider EEP formula be denied. (*Id.*, 29:639-40).

Q. Mr. Rubin recommends that Rider EEP be used on an interim basis and eventually be included in base rates. (Rubin Dir., AG/CUB Ex. 2.0, 29:646-48). How does Nicor Gas respond?

A. Nicor Gas has proposed a voluntary pilot Rider EEP so that it can learn from the programs approved by the Advisory Board. Nicor Gas believes rider treatment for its voluntary proposal is appropriate. At the end of the pilot program term, the Company and Commission can evaluate the performance of the Energy Efficiency Plan and make a determination whether there should be a continuation of the rider and the funding of the programs therein. As part of that determination, the Commission may consider whether it is appropriate to continue the recovery of Energy Efficiency Plan costs through a rider or base rates. However, the Company requires that the implementation of its voluntary energy efficiency plan must include protection for therm reductions caused by those efforts. This is true whether Energy Efficiency Plan costs are recovered through a rider or through base rates.

Q. What specific concern did AG/CUB witness Rubin have about Nicor Gas' proposed Rider EEP?

A. Mr. Rubin expressed a concern about including the CSA within the rider, stating that there was no way to determine the source of reductions in customer use. (Rubin Dir., AG/CUB Ex. 2.0, 26:594-27:598). However, Nicor Gas is not proposing a CSA for all therm use reductions, only those reductions associated with Rider EEP and only those approved by the Advisory Board. The Advisory Board, through its program assessment and review procedures would determine the amount of therm use reductions that would be attributed to Rider EEP and those approved reductions would be the number of therms used by Nicor Gas to determine its lost revenues.

Q. Does the Company propose any changes to Rider EEP?

A. No. The Commission has approved various energy efficiency plans for other utilities as well as the decoupling riders in the Peoples Gas Order. No intervening party has presented any evidence or reasoning that the Commission's previous decisions were in error and should not be followed here. With the exception of the technical changes to

Rider EEP discussed by Mr. Mudra, Nicor Gas' original Rider EEP should be approved by the Commission. (Mudra Dir., Nicor Gas Ex. 29.0).

VIII. RIDER 30: QUALIFIED INFRASTRUCTURE PLANT

Q. Please provide a brief overview of Nicor Gas' proposed Rider QIP.

A. The proposed Rider QIP provides for the return of and on investment arising from the Company's program to accelerate the replacement of cast iron main and copper services. In developing its Rider QIP, the Company considered guidance from the Commission regarding the criteria for any rider proposal seeking to recover certain costs associated with such capital investments outside of a rate case, and also the requirements set forth for infrastructure plant surcharges in Section 9-220.2 of the Act and Part 656 of the Commission's rules. 220 ILCS 5/9-220.2; 83 Ill. Adm. Code Part 656.

Q. Has there been opposition to Rider QIP?

A. Yes. Staff witnesses Lazare (Lazare Dir., Staff Ex. 7.0) and Anderson (Anderson Dir., Staff Ex. 9.0) and AG/CUB witness Rubin (Rubin Dir., AG/CUB Ex. 2.0) oppose Rider QIP. Staff witness Hathhorn (Hathhorn Dir., Staff Ex. 2.0), while not opining on the merits of Rider QIP, presented several technical changes to Nicor Gas' proposed Rider QIP which are addressed by Nicor Gas witness Mudra. (Mudra Reb., Nicor Gas Ex. 29.0). Staff witness Anderson questions whether the rate of cast iron main or copper services failures necessitates the need for greater investment in infrastructure replacement. He also questions whether there are benefits resulting from Rider QIP. Nicor Gas witness McCain addresses Mr. Anderson's direct testimony as it relates to the need for and benefits of Rider QIP. (McCain Reb., Nicor Gas Ex. 20.0).

Q. Which other Nicor Gas witness provide rebuttal testimony supporting Rider QIP?

A. Nicor Gas witness McCain discusses the need for Rider QIP and Rider QIP benefits, Nicor Gas witness Gorenz discusses accounting issues, and Nicor Gas witness Makholm discusses why having Rider QIP should not result in any reduction of the Company's rate of return on equity. (McCain Reb., Nicor Gas Ex. 20.0; Gorenz Reb., Nicor Gas Ex. 26.0; Makholm Reb., Nicor Gas Ex. 25.0).

Q. What objections did Mr. Lazare raise with respect to implementing Rider QIP?

A. Mr. Lazare expressed three objections to implementing Rider QIP. First, he states that Nicor Gas is seeking "extraordinary recovery through the rider of costs to provide ordinary gas to its customers". (Lazare Dir., Staff Ex. 7.0, 17:355-56). Second, he avers that Nicor Gas has failed to show any benefit to ratepayers attributable to Rider QIP. (*Id.*, 18:370). Lastly, he contends that such costs are relatively stable and insignificant and thus should not be recovered through a rider. (*Id.*, 22:461-62).

Q. Does Nicor Gas agree with Mr. Lazare's first objection?

A. No. Mr. Lazare contends that the costs for the infrastructure replacement program should be considered costs for basic service and therefore only recoverable through base rates. (Lazare Dir., Staff Ex. 7.0, 17:359-60). The Section 9-220.2 of the Act and Part 656 o the Commission's rules already provide for the recovery of costs associated with what Mr. Lazare describes as "basic service". The type of infrastructure Nicor Gas seeks to replace on an accelerated basis is exactly the kind of infrastructure contemplated in the Act for water and sewer utilities. Further, in the Peoples Gas Order, the Commission in its directive for future infrastructure rider recovery, did not impose or suggest that such recovery would be limited to high tech or extraordinary infrastructure.

Q. Does Nicor Gas agree with Mr. Lazare's claim that Nicor Gas has failed to show benefits to ratepayers from Rider QIP? (Lazare Dir., Staff Ex. 7.0, 18:370).

A. No. Additional main and service pipe replacement would generate both current and longer term benefits to ratepayers as outlined by Nicor Gas witness McCain. (McCain Reb., Nicor Gas Ex. 20.0). In summary, these benefits are an immediate benefit of an annual operating expense reduction of $6,000 per mile of main replaced, in excess of fifteen miles, a lessening of inside meters which improves meter reading effectiveness and efficiency, an expected future decline in leak rate and associated expenses and finally, an expected avoidance of likely higher future removal and replacement costs. As noted in the testimony of AG/CUB witness Mr. Rubin, Nicor Gas has shown a reduced number of leaks on its cast iron main since 2003. (Rubin Dir., AG/CUB Ex. 2.0, 34:762-63). The benefits in terms of reduced expense have been provided to ratepayers both in the 2004 Rate Case and in the current case. With the infrastructure replacement program, additional benefits are likely to be generated.

Q. What is the Company's response to Mr. Lazare's accusation that Rider QIP is designed to create financial rewards? (Lazare Dir., Staff Ex. 7.0, 19:391-93).

A. In my opinion the program is designed to address a financial need—not create a financial reward. Had Rider QIP been designed to create a financial reward, the Company would not have proposed a spending cap. The effect of the program will be a slight acceleration of revenue recovery by Nicor Gas from revenues that would otherwise be recoverable in a subsequent rate case, and will assist Nicor Gas in offsetting the impacts of added cost not being matched to any incremental revenues

Q. What is the Company's response to Mr. Lazare's claim that the costs to be included in Rider QIP are not volatile and should not be recovered through a rider? (Lazare Dir., Staff Ex. 7.0, 19:384).

A. Mr. Lazare seems to create an additional legal hurdle where none existed before. His proposed requirement that infrastructure investment must be volatile before there can be rider recovery, finds no support in the Commission's Peoples Gas Order, the Act, or Part 656. Neither the Commission' Peoples Gas Order, the Act or Part 656 require infrastructure replacement costs be volatile. Further, to clarify any misunderstanding that Mr. Lazare may have had regarding my direct testimony, my exact statement was that "one reason these costs do not easily fit into the test year approach is that they are volatile, significant and out of the control of the utility". Emphasis added (O'Connor Dir., Nicor Gas Ex. 12.0, 5:91-93). The quote above is from my general discussion about riders and not specific to Rider QIP. Nicor Gas has not argued that QIP-related costs are volatile. On the contrary, Nicor Gas proposes a steady investment over a course of ten years which is perfectly consistent with the Commission's Part 656 rule and the Act's surcharge provision for investment in infrastructure plant. 220 ILCS 5/9-220.2(b).

Q. Has Mr. Lazare raised other issues with proposed Rider QIP?

A. Yes. Mr. Lazare takes issue with Rider QIP because he views the expenditures there-under as insignificant and therefore not worth the Commission's time and effort. (Lazare Dir., Staff Ex. 7.0, 22:461-62). He compares the maximum additional revenue that can be recovered under proposed Rider QIP to the Company's annual revenues, including gas costs. (*Id.*, 22:457-58). This is an inappropriate and misleading comparison. It is inappropriate because neither the Commission in the Peoples Gas Order, the Act or Part 656 require a Company show the level of investment contemplated within a qualified investment plant rider be significant. To the contrary, consistent with Part 656, Rider QIP imposes limitations on how much Nicor Gas may flow through its rider. Its misleading, because the more relevant and accurate comparison of QIP revenue requirement is to allowed Operating Income. Using this comparison, the estimated revenue requirement would be approximately 1.6% of operating income at proposed rates or approximately 3.8% of operating income at current rates, a much more significant amount.

Mr. Lazare wrongly concludes the Company did not show ratepayer benefits that will result from Rider QIP. Nicor Gas witness McCain rebuts Mr. Lazare's conclusion. In addition to the quantified $6,000 saving per mile of replaced main, Rider QIP will provide non-quantifiable benefits such as reduced leak rates and improved meter-reading efficiencies. Further discussion of ratepayer benefits are discussed by Mr. McCain and also are discussed below. (McCain Reb., Nicor Gas Ex. 20.0).

Q. Does Staff witness Anderson address Rider QIP?

A. Yes. Mr. Anderson concludes the Company did not demonstrate that cast iron main and copper services should be replaced as the Company proposes. (Anderson Dir., Staff Ex. 9.0, 6:96-97). He contends the Company should provide a quantification of the benefits or effects on safety, reliability, efficiency, customer satisfaction, reduction operation and maintenance costs, balance work load or a lower overall capital cost. (*Id.*, 7:117-19). However, he does not disagree that if the cast iron main and copper services are not replaced before their performance declines, then the Nicor Gas system could see problems with safety, reliability and efficiency. (*Id.*, 7:126-29).

Q. Who addresses Staff witness Anderson's assertion regarding Rider QIP benefits?

A. Nicor Gas witness McCain originally set forth from an operations standpoint the need to replace cast iron main and copper service. (McCain Dir., Nicor Gas Ex. 5.0, 6:128, 11:230). Mr. McCain addresses Mr. Anderson's assessment of the Company's infrastructure replacement proposal. (McCain Reb., Nicor Gas Ex. 20.0). Mr. McCain clarifies for Mr. Anderson the issue the Company seeks to address with Rider QIP, addresses the benefits of Rider QIP and concludes that the rider fosters the effective management of aging and deteriorating infrastructure. (*Id.*).

Q. What objections did Mr. Rubin raise with respect to implementing Rider QIP?

A. Mr. Rubin argues that leak rate reductions since 2003 do not support an acceleration program and that Nicor Gas has not shown sufficient benefits to ratepayers. (Rubin Dir., AG/CUB Ex. 2.0, 34:762, 37:823).

Q. Have leak rates declined since 2003?

A. Yes. The Company expects leak rates to decline further if Rider QIP is approved. This topic is more fully discussed in the rebuttal testimony of Nicor Gas witness Mr. McCain. (McCain Reb., Nicor Gas Ex. 20.0).

Q. What is the Company's response to Mr. Rubin's allegation that the Company has not shown sufficient benefits to ratepayer? (Rubin Dir., AG/CUB Ex. 2.0, 36:796).

A. Mr. Rubin has understated the benefits to ratepayers.

Q. Please explain.

A. Mr. Rubin's observation is limited to the economics related to the replacement of a mile of main, but he ignores the data for copper service replacement. The correct cost data for Rider QIP is an average annual investment of $12,317,800, resulting in an approximate annual revenue requirement of $2,192,568. The associated immediate benefit to ratepayers would be an annual cost reduction of $150,000. He fails to consider the additional, and likely significant benefits to ratepayers of lower leak rates, improved meter-reading efficiency and likely avoided future cost increases for removal and replacement. The replacement of the subject cast iron main and copper services will be made. No one disputes this. The real issue is timing.

Q. Have any of the comments made by Staff and Intervenors caused Nicor Gas to modify its proposed Rider QIP?

A. Nicor Gas proposes no modifications to Rider QIP other then the technical changes proposed by Staff witness Hathhorn as discussed above and in the rebuttal testimony of Mr. Mudra. (Mudra Reb., Nicor Gas Ex. 29.0).

Q. In summary, why should the Commission approve Nicor Gas' proposed Rider QIP?

A. As discussed in my direct testimony, in developing its proposal for Rider QIP the Company considered the Commission's Peoples Gas Order, Section 9-220.2 of the Act, and Part 656 of the Commission's Rules. Nicor Gas has complied with the directives set forth by the Commission in the Peoples Gas Order and it has designed Rider QIP to closely match the requirements of Part 656. Consequently, Nicor Gas believes that Rider

QIP conforms to all the requirements specified by the Commission and should be approved

Q. Does that conclude your rebuttal testimony?

A. Yes.

COMPARISON OF RIDERS IMPACT ON NICOR GAS V. RESIDENTIAL CUSTOMERS

*(in millions)		UEA		CUA		Total
2007 Actual	$	52.97	$	33.45	$	86.43
2007 Actual minus UEA deadband of 5%	$	51.05	$	33.45	$	84.50
Final Order 2005	$	38.52	$	25.18	$	63.70
Difference	$	12.53	$	8.28	$	20.81
After Tax Difference	$	7.55	$	4.99	$	12.54
Operating Income - 2007	$	128.70	$	128.70	$	128.70
Uncollectible Expense Impact on Nicor Gas		**5.9%**		**3.9%**		**9.7%**

In $		$		$		$
Average Residential Customer Bill - 2007	$	1,012	$	1,012	$	1,012
Impact of Riders per Customer (1.98M Customers)	$	6.33	$	4.18	$	10.51
Impact as a Percentage of Average Customer Bill		**0.6%**		**0.4%**		**1.0%**

Commodity Related Expense Analysis
Uncollectible Expense

Year	O&M Exp.	Other O&M Exp	Commodity Exp	Uncollectible Exp.	Impact
Y2000	166.4	142.0	24.4	16.6	
Y2001	177.1	141.1	36.0	23.2	
Y2002	199.6	165.1	34.5	25.7	
Y2003	220.1	178.2	41.9	29.8	
Y2004	233.6	188.6	45.0	32.5	
Y2005	253.6	187.8	65.8	42.6	
Y2006	267.2	180.7	86.5	38.1	
Y2007	268.3	180.0	88.3	53.0	
Y2008 est	287.9	196.7	91.2	57.9	
Y2009 est	316.4	211.6	104.8	68.3	

* in millions of dollars

For years 2000 - 2009:

Average	239.02	177.18	61.84	38.77	
Std. Dev.	48.64	22.40	28.93	16.61	
CV	0.20	**0.13**	0.47	**0.43**	**3.39** times
CAGR	7.4%	**4.5%**	17.6%	**17.0%**	**3.76** times

Correlation Analysis - Uncollectible Expense

Line			Uncollectible Expense (Rolling 12 mth)		Wgt'd Avg GSC ($/MMBTu)	Revenue (Rolling 12 mth)
1	1/1/2002	$	21,507,958	$	4.63	1,727,574,857
2	2/1/2002	$	20,106,946	$	2.83	1,420,235,320
3	3/1/2002	$	20,395,049	$	2.07	1,279,086,049
4	4/1/2002	$	20,120,369	$	1.99	1,277,070,684
5	5/1/2002	$	21,160,895	$	2.02	1,290,125,726
6	6/1/2002	$	24,483,102	$	2.06	1,289,278,652
7	7/1/2002	$	24,648,464	$	2.12	1,294,374,466
8	8/1/2002	$	24,842,439	$	2.19	1,303,252,365
9	9/1/2002	$	24,205,109	$	2.25	1,308,379,044
10	10/1/2002	$	24,910,433	$	2.48	1,346,588,011
11	11/1/2002	$	25,969,187	$	3.03	1,465,317,582
12	12/1/2002	$	25,716,046	$	3.73	1,594,609,641
13	1/1/2003	$	27,410,951	$	4.29	1,791,682,944
14	2/1/2003	$	28,579,853	$	4.83	1,973,839,714
15	3/1/2003	$	27,899,931	$	5.87	2,174,696,004
16	4/1/2003	$	28,950,612	$	6.18	2,246,017,197
17	5/1/2003	$	28,648,085	$	6.24	2,255,921,587
18	6/1/2003	$	25,675,879	$	6.30	2,272,173,317
19	7/1/2003	$	25,889,516	$	6.37	2,290,222,139
20	8/1/2003	$	26,189,541	$	6.44	2,306,752,553
21	9/1/2003	$	27,411,871	$	6.50	2,322,929,840
22	10/1/2003	$	28,141,547	$	6.50	2,337,757,882
23	11/1/2003	$	29,212,793	$	6.38	2,338,383,166
24	12/1/2003	$	29,761,870	$	6.23	2,351,673,408
25	1/1/2004	$	32,318,071	$	6.73	2,439,678,331
26	2/1/2004	$	34,168,182	$	6.75	2,423,032,263
27	3/1/2004	$	34,024,000	$	6.00	2,290,033,004
28	4/1/2004	$	34,539,000	$	5.84	2,254,453,798
29	5/1/2004	$	34,551,000	$	5.78	2,236,373,223
30	6/1/2004	$	34,557,000	$	5.83	2,248,912,884
31	7/1/2004	$	34,915,000	$	5.86	2,252,373,885
32	8/1/2004	$	35,066,000	$	5.88	2,256,022,915
33	9/1/2004	$	32,120,000	$	5.88	2,252,393,079
34	10/1/2004	$	31,723,000	$	5.89	2,248,846,785
35	11/1/2004	$	31,953,000	$	6.11	2,274,165,275
36	12/1/2004	$	32,490,000	$	6.53	2,363,917,794
37	1/1/2005	$	32,781,000	$	6.27	2,344,644,989
38	2/1/2005	$	32,598,000	$	6.17	2,335,716,458
39	3/1/2005	$	34,177,000	$	6.30	2,407,695,605
40	4/1/2005	$	34,277,000	$	6.35	2,420,574,889
41	5/1/2005	$	34,937,000	$	6.46	2,453,912,031
42	6/1/2005	$	35,281,000	$	6.37	2,441,543,428
43	7/1/2005	$	35,343,000	$	6.33	2,442,425,029
44	8/1/2005	$	35,581,000	$	6.32	2,440,678,675
45	9/1/2005	$	34,823,000	$	6.43	2,456,177,871
46	10/1/2005	$	35,970,000	$	6.91	2,525,846,668
47	11/1/2005	$	38,193,000	$	7.70	2,663,241,543
48	12/1/2005	$	42,591,000	$	9.02	2,909,552,924
49	1/1/2006	$	43,048,000	$	9.97	2,922,477,575
50	2/1/2006	$	45,140,000	$	11.00	3,064,477,302
51	3/1/2006	$	45,088,000	$	11.10	3,041,484,977
52	4/1/2006	$	44,677,000	$	11.05	3,017,223,366
53	5/1/2006	$	44,424,000	$	11.00	3,005,645,394
54	6/1/2006	$	44,601,000	$	10.97	3,007,419,300
55	7/1/2006	$	44,468,000	$	10.91	2,995,874,038
56	8/1/2006	$	44,266,000	$	10.87	2,995,533,265
57	9/1/2006	$	45,866,000	$	10.77	2,992,478,812
58	10/1/2006	$	45,231,000	$	10.25	2,943,183,040
59	11/1/2006	$	42,754,000	$	9.16	2,766,560,864
60	12/1/2006	$	38,057,000	$	7.56	2,452,316,905
61	1/1/2007	$	36,915,000	$	6.51	2,388,907,897
62	2/1/2007	$	37,528,000	$	6.09	2,420,397,842
63	3/1/2007	$	39,242,324	$	6.31	2,449,951,198
64	4/1/2007	$	41,119,324	$	6.74	2,558,307,898
65	5/1/2007	$	41,294,324	$	6.81	2,553,116,979
66	6/1/2007	$	42,643,824	$	6.88	2,543,126,412
67	7/1/2007	$	43,065,824	$	7.00	2,559,094,639
68	8/1/2007	$	43,357,824	$	7.05	2,560,691,893
69	9/1/2007	$	47,310,824	$	7.04	2,555,480,549
70	10/1/2007	$	47,943,824	$	7.07	2,520,965,029
71	11/1/2007	$	50,134,824	$	7.31	2,581,420,300
72	12/1/2007	$	52,973,824	$	7.34	2,627,495,000

	Uncollectible Expense to GSC	Uncollectible Expense to Revenue
Correlation coefficient	0.81	0.85

		2000	2001	2002	2003	2004	2005	2006	2007	' 00 to '07
Actual Uncollectible Expense	$ '000	16,578.0	23,237.4	25,716.0	29,761.9	32,490.0	42,591.0	38,058.0	52,973.8	261,406.1
Budgeted Uncollectible Expense	$ '000	13,000.0	16,100.0	11,630.8	19,340.0	28,770.0	30,355.4	53,570.0	41,885.0	214,651.2
Allowed Uncollectible Expense	$ '000	9,017.0	9,017.0	9,017.0	9,017.0	9,017.0	16,393.0	38,520.0	38,520.0	138,518.0
Actual uncollectible expense as % of Budget										121.78%
Actual uncollectible expense as % of Allowed										188.72%

Commodity Related Expense Analysis
Company Use

Year	O&M Exp.	Other O&M Exp	Commodity Exp	Total Co Use	Impact	
Y2000	166.4	142.0	24.4	7.9		
Y2001	177.1	141.1	36.0	12.7		
Y2002	199.6	165.1	34.5	8.7		
Y2003	220.1	178.2	41.9	12.1		
Y2004	233.6	188.6	45.0	12.5		
Y2005	253.6	187.8	65.8	23.2		
Y2006	267.2	180.7	86.5	48.4		
Y2007	268.3	180.0	88.3	35.4		
Y2008 est	287.9	196.7	91.2	33.3		
Y2009 est	316.4	211.6	104.8	36.5		

* in millions of dollars

For years 2000 - 2009:

	O&M Exp.	Other O&M Exp	Commodity Exp	Total Co Use	Impact	
Average	239.02	177.18	61.84	23.07		
Std. Dev.	48.64	22.40	28.93	14.35		
CV	0.20	**0.13**	0.47	**0.62**	**4.92**	times
CAGR	7.4%	**4.5%**	17.6%	**18.6%**	**4.10**	times

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company	)))	Docket No. 08-0363
Proposed general increase in rates, and revisions to other terms and conditions of service	)))	

AFFIDAVIT

I, Gerald P. O'Connor, under oath, hereby swear to the following:

1. I am the Senior Vice President Finance and Strategic Planning of Nicor Gas Company;

2. I prepared prefiled Rebuttal Testimony on behalf of Northern Illinois Gas Company, d/b/a Nicor Gas Company, submitted as Nicor Gas Ex. 27.0, including Exhibits 27.1 through 27.5, and filed on September 25, 2008;

3. An Errata to my Rebuttal Testimony was filed on November 11, 2008 to provide for corrections discovered after September 25, 2008;

4. I have personal knowledge of all the facts in my Rebuttal Testimony, and the answers set forth in my Rebuttal Testimony are to the best of my knowledge, true and correct; and

5. If asked those same questions today, my answers would be the same.

Gerald P. O'C

Gerald P. O'Connor

Subscribed and sworn to before me
this 11th day of November, 2008.

Trinette A. Giovanazzi

Notary Public

"OFFICIAL SEAL"
TRINETTE A. GIOVANAZZI
Notary Public, State of Illinois
My Commission Expires 8/23/12